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Herbert J. Hovenkamp

*University of Pennsylvania Carey Law School*

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## **IP AND Antitrust Policy: a Brief Historical Overview**

Herbert Hovenkamp

### **ABSTRACT**

The history of IP/antitrust litigation is filled with exaggerated notions of the power conferred by IP rights and imagined threats to competition. The result is that antitrust litigation involving IP practices has seen problems where none existed. To be sure, finding the right balance between maintaining competition and creating incentives to innovate is no easy task. However, the judge in an IP/antitrust case almost never needs to do the balancing, most of which is done in the language of the IP provisions. The role of antitrust tribunals is the much more limited one of ensuring that any alleged threat to competition is real. At the same time, however, antitrust judges should not be reluctant to condemn IP practices once a real threat to competition is found, unless the practice has a clear justification in the IP statutes themselves or the explicit policies that the Supreme Court has derived from those statutes.

## IP AND Antitrust Policy: a Brief Historical Overview

Herbert Hovenkamp

### Introduction

The relation between intellectual property and antitrust policy has always been unstable and problematic. Courts have seen an inherent conflict between the two legal regimes.<sup>1</sup> While both sets of policies seek to promote economic welfare they do so in different ways. In economics, antitrust is myopic. It looks mainly at the short run and promotes practices that tend to drive prices toward cost, squeezing excess profits out of the economy. In order to achieve this antitrust develops rules that encourage entry and duplication. As a general proposition, the more firms that offer a product the more competitive will be its output and price.

By contrast, the policy of the intellectual property laws is to take a longer view and encourage innovation by giving people limited periods of exclusive rights, or freedom from copying. In at least some situations the result is that firms earn profits considerably higher than short run costs, and intellectual property rights have enabled a few firms to earn monopoly profits for very long periods. The potential for conflict becomes even more pronounced when IP right holders enter into agreements or engage in practices that are not expressly authorized by the IP statutes but that seem to have anticompetitive effects.

Notwithstanding these differences in economic perspective, the conflict between intellectual property and antitrust law is easily exaggerated, and the courts have been too ready to find conflicts where none existed. In order to have a true conflict one must have both an IP practice that poses a real threat to competition and also a realistic argument that the practice furthers an interest protected by the IP laws. Historically, many of the IP

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1. E.g., *SCM Corp. v. Xerox Corp.*, 645 F.2d 1195, 1203 (2d Cir. 1981):

The conflict between the antitrust and patent laws arises in the methods they embrace that were designed to achieve reciprocal goals. While the antitrust laws proscribe unreasonable restraints of competition, the patent laws reward the inventor with a temporary monopoly that insulates him from competitive exploitation of his patented art.

See Herbert Hovenkamp, *The Antitrust Enterprise: Principle and Execution* Ch. 11 (2006).

practices condemned by courts as antitrust violations or anticompetitive "misuse" were not anticompetitive at all. This was true of most of the tying and resale price maintenance cases, but also of some of the horizontal restraint and refusal to deal cases. If competition is not significantly threatened by a practice, there is no IP/antitrust conflict. Other practices have posed significant threats to competition but have not furthered any interest that the IP laws were intended to protect. Once again, in such cases there is no conflict.<sup>2</sup>

In 1995 the Department of Justice Antitrust Division and the Federal Trade Commission issued licensing guidelines that reflected this balance.<sup>3</sup> While the Guidelines are not analyzed here, it should be noted that they served to move public policy away from the antitrust aggressiveness of the 1960s and 1970s<sup>4</sup> to a framework that focused on identifying serious threats to competition that were not justified by explicit provisions of the IP laws. Another important institutional development, not discussed here in any detail, was the creation of the Federal Circuit Court of Appeals, whose exclusive appellate jurisdiction of claims arising under the Patent Act has served to unify patent law and, to a lesser extent, antitrust rules applied in cases where

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2. E.g., *Walker Process Equipment v. Food Machinery & Chemical Corp.*, 382 U.S. 172 (1965) (filing infringement action based on fraudulently obtained patent).

3. Justice Department's and FTC, Antitrust Guidelines for the Licensing and Acquisition of Intellectual Property (1995), 59 Fed. Reg. 41,339-01 (tentative), reprinted in Antitrust Law, Annual Supplement, Appendix C; or 4 CCH Trade Reg. Rptr ¶13132 (1995). For analysis, see 10 Phillip E. Areeda and Herbert Hovenkamp, Antitrust Law ¶1782.

4. E.g., see the list of "nine no-nos," which the Antitrust Division promulgated in 1972. Antitrust Division, Statement on Patent Licensing (Sep. 21, 1972), in 4 Trade Reg. Rep. ¶13126. The list included: (1) Licenses requiring the purchase of unpatented products or preventing the licensee from dealing in products outside the scope of the patent; (2) grantback agreements requiring the licensee to assign back to the licensor any improvement patents developed by the licensee; (3) restrictions on the resale of the patented product; (4) preventing the licensee from dealing in products outside the scope of the patent; (5) agreements by licensors not to grant further licenses to others; (6) mandatory package licenses; (7) royalty provisions not reasonably related to sales; (8) restrictions on the licensee's use of a product manufactured by a patented process; and (9) resale price maintenance of licensed products.

Subsequent Justice Department statements issued prior to the 1995 Guidelines had already repudiated many of the "no-nos." See, e.g., Charles "Rick" Rule, The Antitrust Implications of International Licensing: After the Nine No-Nos (1986), 4 Trade Reg. Rep. ¶13131 (1995) at 20,730 ("For each of the nine no-nos . . . there are *at least* as many potential procompetitive explanations" that "in the great majority of cases . . . will outweigh any anticompetitive threat").

the primary claim arises under the Patent Act.<sup>5</sup>

### **The Shifting Ground of the Antitrust/IP Relationship**

This essay takes a bird's eye view of the most important themes that the courts have seen as dominating the relationship between IP policy and antitrust policy. Current law takes a relatively broad view of intellectual property protection and a relatively narrow view of antitrust. But this has not always been the case. The Supreme Court has gone through periods in which it held expansive views of antitrust but was hostile toward patents and inclined to view them as inherently anticompetitive. The result has been a great deal of instability in Antitrust/IP jurisprudence.

Ever since the antitrust laws were passed, antitrust and IP have had to accommodate one another, but they have done so in different ways in different periods. The early twentieth century was an era of IP expansion and antitrust accommodation. During this period even when the Supreme Court saw fit to make IP yield it frequently did so on "misuse" rather than antitrust grounds. By contrast, beginning during the New Deal and extending through the Warren era the Supreme Court was more inclined to view patents as inherently anticompetitive and to interpret the antitrust laws expansively. The result was overly aggressive and sometimes even silly antitrust rules, such as those for patent ties, that found antitrust violations when the defendant had no real power and there was no realistic prospect of economic harm.

Today we once again live in an era of IP expansionism. Indeed, the IP laws, particularly the Copyright Act, bear the marks of significant special interest capture. The result is provisions that are much more likely to protect IP holders' profits than to serve the Constitutional purpose of the IP laws, which is to encourage innovation by searching for the right balance between the right to exclude and the need of every innovator to build on the work of others.<sup>6</sup> By contrast, antitrust over the last three decades has become much

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5. For further reading, see 1 Herbert Hovenkamp, Mark D. Janis & Mark A. Lemley, *IP and Antitrust: an Analysis of Antitrust Principles Applied to Intellectual Property Law*, ch. 5 (2001 & 2005 Supp.); R. Polk Wagner & Lee Petherbridge, *Is the Federal Circuit Succeeding? an Empirical Assessment of Judicial Performance*, 152 *Univ.Pa.L.Rev.* 1105 (2004); Glynn S. Lunney, Jr., *Patent Law, the Federal Circuit, and the Supreme Court: A Quiet Revolution*, 11 *Sup.Ct.Econ.Rev.* 1 (2004); Daniel J. Meador, *Retrospective on the Federal Circuit: the First Twenty Years -- a Historical View*, 11 *Fed.Circuit B.J.* 557 (2002). And see Symposium on the Federal Circuit and Antitrust, 69 *Antitrust L.J.* 627 (2002).

6. For differing perspectives, see Herbert Hovenkamp, *United States Antitrust Policy in*

more focused on protecting consumer welfare, neoclassically defined, and interest groups have had considerably less success in obtaining special interest legislation.<sup>7</sup> As a result, application of the antitrust laws is more likely to serve the public interest than application of at least many IP provisions. This counsels against overly expansive interpretations of IP rights in the face of serious complaints of competitive harm.

At the policy level antitrust is a more coherent enterprise than the IP regimes. While the point can certainly be exaggerated, the fact is that the neoclassical model of competition has become robustly established in both the antitrust academy and the federal judiciary. Courts have become far better at distinguishing anticompetitive practices from those that are procompetitive or harmless. While plenty of problems of administration remain, most of them have to do with the details of antitrust enforcement rather than its core policy.<sup>8</sup> IP policy cannot make the same set of claims. Most importantly, it lacks an empirically useable model for identifying the appropriate duration and scope of IP rights. An optimal IP policy<sup>9</sup> would

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an Age of IP Expansion, in 2004 Corporate Law Institute, *International Antitrust Law & Policy* 225-240 (Barry Hawk, ed., 2004); Lawrence Lessig, *Free Culture: How Big Media Uses Technology and the Law to Lock Down Culture and Control Creativity* (2004); Lawrence Lessig, *The Future of Ideas: the Fate of the Commons in a Connected World* (2001); Robert P. Merges, *One Hundred Years of Solicitude: Intellectual Property Law, 1900-2000*, 88 Cal.L.Rev. 2187, 2235 (2000); Adam B. Jaffe, *The U.S. Patent System in Transition: Policy Innovation and the Innovation Process*, 29 Res.Policy 531 (2000); Jared Diamond, *Guns, Germs & Steel: the Fate of Human Societies*, ch. 13 (1999); Stephen G. Breyer, *The Uneasy Case for Copyright: A Study of Copyright in Books, Photocopies and Computer Programs*, 84 Harv. L.Rev. 281 (1970).

7. To be sure, there are exceptions. The Robinson-Patman Act is certainly the most significant instance of special interest capture contained in the antitrust laws. See 14 Herbert Hovenkamp, *Antitrust Law*, Ch. 23 (2d ed. 2006). There are also numerous statutory exemptions from the antitrust laws, many of which reflect strenuous special interest lobbying. One recent example is an antitrust immunity for graduate medical school resident matching programs, codified at 15 U.S.C. §37b(b)(2). See *Jung v. Assn. of Am. Medical Colleges*, 339 F.Supp.2d 26, 34 (D.D.C. 2004). On other federal exemptions from the antitrust laws, see 1A Phillip E. Areeda & Herbert Hovenkamp, *Antitrust Law* ¶¶240-257 (2d. ed. 2000).

8. See Herbert Hovenkamp, *The Antitrust Enterprise: Principle and Execution* (Cambridge, Ma.: Harvard Univ. Press 2005, forthcoming).

9. Such a policy is not merely economically optimal, it is also implicitly mandated by the IP clause of the Constitution, which authorizes Congress to make IP laws in order "[t]o promote the Progress of Science and the Useful Arts." U.S. Const. Art. 1, §8.

seek to maximize the social returns from innovation, less the costs of any monopoly output reductions and related dislocations that result, plus the costs of using the IP system, including the costs of identifying IP rights and negotiating licenses.<sup>10</sup> Determining the optimal amount of protection is incredibly difficult. For example, as the scope and strength of IP rights increases people have a greater incentive to innovate insofar as anticipated returns to completed innovations are greater, but a reduced incentive insofar as it becomes more costly to borrow the ideas of others. Further, while the IP statutes are largely general, optimal coverage almost certainly varies from industry to industry. For example, a shorter period of copyright protection for computer code would almost certainly further innovation in that market. The market life of computer code is a few years at the most. Under the current regime there is no realistic chance that copyrighted code will ever enter the public domain while it has economic life remaining. Largely because of this uncertainty,<sup>11</sup> the IP laws have become a playground for special interests, who have remarkable and generally unprecedented control over Congressional agendas.<sup>12</sup>

Of course, special interest capture of IP regimes is not a problem to be addressed under the antitrust laws, but rather by educating Congress and convincing courts to take legislative capture into account when interpreting statutes.<sup>13</sup> At the same time, however, the current regime of unduly

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**10.** See generally William M. Landes & Richard A. Posner, *The Economic Structure of Intellectual Property Law*, Ch. 1 (2003).

**11.** In general, the greater the uncertainty about the efficient way to manage a market, the more susceptible that market will be to regulatory capture. See Herbert Hovenkamp, *Regulation History as Politics or Markets*, 12 *Yale J.Reg.* 549 (1995).

**12.** Speaking of copyright, see, e.g., William F. Patry, *Copyright and the Legislative Process: A Personal Perspective*, 14 *Cardozo Arts & Ent. L.J.* 139, 141 (1996):

Copyright interest groups hold fund raisers for members of Congress, write campaign songs, invite members of Congress (and their staff) to private movie screenings or sold out concerts, and draft legislation they expect Congress to pass without any changes. In the 104th Congress, they are drafting the committee reports and haggling among themselves about what needs to be in the report. In my experience, some copyright lawyers and lobbyists actually resent members of Congress and staff interfering with what they view as their legislation and their committee report. With the 104th Congress we have, I believe, reached a point where legislative history must be ignored because not even the hands of congressional staff have touched committee reports.

**13.** On this point, see Frank H. Easterbrook, *The Court and the Economic System*, 98 *Harv. L. Rev.* 4 (1984); Einer Elhauge, *Preference-Eliciting Statutory Default Rules*, 102

expansionist IP provisions and a decently grounded antitrust policy suggest that antitrust should not be as cautious as it has been in the past. When a challenged practice poses a true threat to competition and is not expressly permitted by the IP statutes, courts are well advised to err on the side of promoting the short run competitive interests recognized in antitrust, rather than the cacophony of voices reflected in the IP laws.

### **Earliest Antitrust/IP Encounters; "First Sale" Limitations and Resale Price Maintenance**

Even before the Sherman Act was passed the Supreme Court had used IP doctrine itself to strike down license provisions viewed as unnecessarily restricting competition in the sale of affected goods. For example, *Adams v. Burke* (1873) applied the "first sale" doctrine to preclude a patentee from imposing territorial restrictions on patented goods once the licensee had sold them.<sup>14</sup> While a patentee might lawfully limit the territories in which a licensee produced the patented article, once the article was sold the patentee no longer controlled it and could not stipulate where it could be marketed. *Adams* was thus the first case to strike down a vertical territorial division agreement, nearly twenty years prior to the passage of the Sherman Act, and ninety years prior to its application in the *Schwinn* decision.<sup>15</sup> In its 1908 *Bobbs-Merrill* decision the Court once again applied the first sale doctrine so as to prevent resale price maintenance, or publisher stipulation of the price at which its books must be resold by booksellers.<sup>16</sup> The case raised no antitrust issues, but found that the protections of the copyright laws did not extend to controlling the price of a copyrighted work once the copyright holder had sold it. The Court expressly left open the question, later resolved in the *Dr. Miles* case, whether the sale of the book plus a separate

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Col.L.Rev. 2162 (2002). On patents, see Dan L. Burk and Mark A. Lemley, Policy Levers in Patent Law, 89 Va.L.Rev. 1575 (2003); on copyright, see Christina Bohannon, Reclaiming Copyright (forthcoming 2005).

14. *Adams v. Burke*, 84 U.S. 453 (1873). See also *Keeler v. Standard Folding Bed Co.*, 157 U.S. 659 (1895), which held that under the first sale doctrine a dealer in a territory given to a licensee could resell the product in a territory reserved by the patentee itself, and thus in competition with the patentee.

15. See *United States v. Arnold, Schwinn & Co.*, 388 U.S. 365 (1967) (declaring vertically imposed territorial restrictions unlawful per se); *Schwinn* was overruled by *Continental T.V. v. GTE Sylvania*, 433 U.S. 36 (1977), which imposed a rule of reason. See 8 Phillip E. Areeda & Herbert Hovenkamp, *Antitrust Law* ¶1643 (2d ed. (2004).

16. *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339 (1908).



contractual provision stipulating the resale price would be enforceable<sup>17</sup> -- thus first suggesting the concept of a "shrinkwrap" license that gave the licensor contractual rights beyond the rights recognized in the IP statutes themselves.<sup>18</sup>

Three years after *Bobbs-Merrill*, the Supreme Court found resale price maintenance by contract to be unlawful under the antitrust laws, and in the process it rejected an IP defense -- namely that the medicines whose prices were fixed were protected by trade secrets.<sup>19</sup> Dr. Miles argued that the "secret process" by which its medicine was manufactured gave it an additional interest entitling it to specify resale prices. The medicine was not patented, but even if it had been it would not have been protected under the rule already stated in *Bement* and subsequently developed in *General Electric*<sup>20</sup> permitting a patentee to stipulate the price at which goods manufactured under its license are sold. In *Dr. Miles* the defendant manufactured the medicine itself and sold it to resellers, thus taking it out of "first sale" protection. As then Judge Lurton wrote in his opinion for the Sixth Circuit, to enforce the resale price maintenance agreement for Dr. Miles medicine would give the producer of a non-patented product "vastly more far-reaching" protection of the right to control resales than the owner of a patented product has.<sup>21</sup> Further:

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17. See 210 U.S. at 350: "there is no claim in this case of [a] contract limitation ... controlling the subsequent sales of the book."

18. See, e.g., *Bowers v. Baystate Technologies*, 320 F.3d 1317 (Fed. Cir.), cert. denied, 539 U.S. 928 (2003); *ProCD, Inc. v. Zeidenberg*, 86 F.3d 1447, 39 USPQ2d 1161 (7th Cir.1996); Justin Graham, Preserving the Aftermarket in Copyrighted Works: Adapting the First Sale Doctrine to the Emerging Technological Landscape, 2002 Stanford Tech.L.Rev. 1.

19. *Dr. Miles Medical Co. v. John D. Park & Sons Co.*, 220 U. S. 373, 400-401 (1911). See also *Bauer & Cie v. O'Donnell*, 229 U.S. 1 (1913), which held that the Patent Act's exclusive right to "make, use, and vend" (35 U.S.C. §40) did not include the right to impose resale price maintenance via a license agreement; noting the connection with *Dr. Miles* (antitrust) and *Bobbs-Merrill* (copyright). Accord *Straus v. Victor Talking Machine Co.*, 243 U.S. 490 (1917) (decided entirely under Patent Act).

On the great pharmacy price fixing conspiracy that gave rise to the *Dr. Miles* litigation, see Herbert Hovenkamp, *Enterprise and American Law, 1836-1937*, ch. 25 (1991).

20. *Bement v. National Harrow Co.*, 186 U.S. 70 (1902); *United States v. General Electric Co.*, 272 U.S. 476 (1926).

21. *Dr. Miles*, 164 F. 803, 806 (6th Cir. 1908), aff'd, 220 U. S. 373 (1911).

The mere fact that one article or class of articles is made under an unknown and private formula and another class is not is an undeniable fact which may serve for some purposes to differentiate them. But that single fact does not afford an economic reason, and still less a legal reason, for saying that it operates to exempt such articles from rules against unlawful restraints of trade.<sup>22</sup>

Since *Dr. Miles* the courts have more or less consistently held that the resale price maintenance rule applies categorically, whether or not a good is produced by a secret process, and whether or not it is patented,<sup>23</sup> copyrighted,<sup>24</sup> or trademarked.<sup>25</sup>

### **Patent Ties and the Rise of "Misuse" Doctrine<sup>26</sup>**

The law of tying arrangements became the stage for one of the most significant encounters of IP and competition policy. On one side of the conflict was the claim of patent holders that they should be given maximum freedom to capitalize on inventions by bundling unpatented supplies or other goods used in conjunction with the patent. On the other side was the competitive concern that such bundling expanded the patent "monopoly" without authorization in the Patent Act.

The early doctrine of patent "misuse" evolved in the first decades of the twentieth century, a little prior to the development of the earliest antitrust law of tying arrangements.<sup>27</sup> The earliest cases are best described as "pre-misuse," because they all involved actions to enforce license restrictions that infringement defendants claimed were anticompetitive. Not until the 1940s did the Court refuse a direct patent enforcement action against an obvious infringer because of patentee behavior that the Court characterized as

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22. 164 F. at 806-807.

23. *Bauer & Cie v. O'Donnell*, 229 U.S. 1 (1913).

24. *Bauer & Cie*, id. (dicta); *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339 (1907).

25. *United States v. Sealy, Inc.*, 388 U.S. 350 (1967).

26. On patent ties, see Ch. 109.

27. See 1 Hovenkamp, Janis & Lemley, IP and Antitrust, note 5, Ch. 3.

misuse.<sup>28</sup>

Why separate doctrines of misuse and antitrust grew up is something of a mystery. One explanation for later cases, after the 1950s, is that notwithstanding antitrust expansionism the Supreme Court viewed tying law as insufficient when the arrangements involved patented products or processes. The doctrine of misuse provided an extra measure of deterrence in such situations. But this does not explain why earlier decisions such as *Motion Picture Patents* relied on misuse principles when illegality, and thus non-enforceability, under the Clayton Act seemed so clear.

There were always technical differences between misuse and antitrust doctrine. "Misuse" was most generally raised as a defense to an infringement action, while the antitrust laws were affirmatively enforced by the government or, occasionally, private plaintiffs. But infringement defendants and courts could just as easily have held that infringement actions could not be based on licensing arrangements that violated the antitrust laws. Even at common law agreements that restrained trade were unenforceable. Already in its 1922 *Standard Fashion* decision the Supreme Court had taken that approach with respect to exclusive dealing, holding that an exclusive contract imposed on retailers by the market dominating seller of dress patterns could not be enforced because it violated §3 of the Clayton Act.<sup>29</sup> The courts did not follow the same course in the patent tie cases, however, and the doctrine of misuse acquired a life of its own, creating broader tying liability than the antitrust laws themselves did, and later expanding beyond tying arrangements to include other types of licensing provisions.

The lower courts began dealing with patent ties in the 1890's, and largely approved them. The rise of "misuse" doctrine resulted from the fact that in the beginning courts analyzed these ties strictly under the policies of the Patent Act, not antitrust law.<sup>30</sup> The first patent-tie case to come to the

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28. *Morton Salt Co. v. G.S. Suppiger Co.*, 314 U.S. 488 (1942).

29. *Standard Fashion Co. v. Magrane-Houston Co.*, 258 U.S. 346 (1922).

30. See, e.g., *Heaton Peninsula Button Fastening Co. v. Eureka Specialty Co.*, 77 Fed. 288 (6th Cir. 1896) (finding contributory infringement by one who sold staples for fastening shoe buttons to the owner of the patentee's buttoning fastening machine, in violation of a license restriction that only the patentee's staples could be used; relying entirely on Patent Act). See also *Tubular Rivet & Stud Co. v. O'Brien*, 93 Fed. 200 (D. Mass. 1898) (patented riveting machine and unpatented rivets); *Cortelyou v. Lowe*, 111 Fed. 1005 (2d Cir. 1901) (per curiam) (patented copying machine and unpatented supplies); *Cortelyou v. Carter's Ink Co.*, 118 Fed. 1022 (S.D.N.Y. 1902) (copying

Supreme Court was *Henry* in 1912.<sup>31</sup> A.B. Dick manufactured a mimeograph machine for offices, on which it held several patents. It placed a notice of a license restriction on the machine, stating that the machine "may be used only with the stencil paper, ink and other supplies made by A.B.Dick Co...."<sup>32</sup> The patent act neither expressly permitted nor expressly forbade a patentee from conditioning the use of its patent on the purchase of unpatented complementary goods. Further, in this case at least some of the goods were ordinary supplies capable of substantial non-infringing uses. Nevertheless, the Court approved a finding of contributory infringement by the defendant, who sold some of the covered supplies with the knowledge that they would be used by a purchaser in violation of the license restriction.<sup>33</sup> Although the case arose two decades after the Sherman Act was passed, the infringement defendant did not raise an antitrust defense to A.B.Dick's arrangement. The Court mentioned the Sherman Act briefly, but concluded that it did not apply.<sup>34</sup> Rather it simply noted that the license restriction was not forbidden by the Patent Act. The defendant had argued that the tie served to expand the monopoly created by the patent.<sup>35</sup> The Patent Act did not expressly forbid such contracts, however, and the Court held that "[a]rguments based on suggestions of public policy not recognized in the patent law are not relevant."<sup>36</sup>

Congress was not happy with the *Henry* decision, and two years later it passed §3 of the Clayton Act, which condemned anticompetitive ties involving patented as well as unpatented goods.<sup>37</sup> Three years after that the

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machine and ink); *Brodrick Copygraph Co. v. Roper*, 124 Fed. 1019 (D.R.I. 1903) (same); *Aeolian Co. v. Harry H. Juelg Co.*, 155 Fed. 119 (2d Cir. 1907) (patented player piano and music rolls); *Crown Cork & Seal Co. v. Brooklyn Bottle Stopper Co.*, 172 Fed. 225, 230 (E.D.N.Y. 1909) (patented bottle-handling machine and bottle caps; expressly finding no violation of antitrust laws).

**31.** *Henry v. A.B.Dick & Co.*, 224 U.S. 1 (1912).

**32.** *Id.* at 11.

**33.** *Ibid.*

**34.** *Id.* at 28-29.

**35.** *Id.* at 19.

**36.** *Ibid.*

**37.** 15 U.S.C. §14.

Court overruled *A.B. Dick* in the *Motion Picture Patents Co. (MPPC)* case.<sup>38</sup> The most successful patents in the motion picture industry had been developed by Thomas Edison, whose projection technology used sprocketed wheels and perforated film to make motion pictures run smoothly without slipping. The Edison interests had initially hoped to obtain control over the entire motion picture industry by refusing to sell patented cameras used for taking the pictures. When competitive cameras appeared on the market the parties litigated numerous patent infringement suits, which they finally settled by forming the Motion Picture Patents Company in 1909. That firm then shifted its strategy to one of tying its patented projectors to films. MPPC obtained an exclusive supply contract for film from Kodak, and also placed on its patented projectors a license restriction that only its own films could be shown through the machine. Finally, MPPC organized the General Film Company, which acquired most of the distribution network, made up at this time of small firms that purchased the films from their makers and then licensed them to theaters. The General Film Company then refused to rent films to theaters that either used projectors made by others or that showed other producers' films. The MPPC interests also attempted to blacklist actors and actresses who had agreed to work for film companies that were not controlled by MPPC. Significantly, the overall arrangement was horizontal as well as vertical because MPPC itself was a consortium of otherwise competing firms producing motion picture technology.<sup>39</sup>

While §3 of the Clayton Act was clearly the occasion for the overruling of *Henry*, and the Court stated that the new statute "confirmed" its analysis, the decision itself rested on patent law rather than antitrust grounds.<sup>40</sup> The Court held that because the film was "no part" of the grant of a patent in the machine, it could not be infringement for the licensee to use the film of others. The Court saw the patentee as "in effect, extend[ing] the scope of its

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**38.** *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502 (1917).

**39.** See Lewis Jacobs, *The Rise of the American Film* 8, 81-85, 88, 164-165, 291-292 (1939); Benjamin B. Hampton, *A History of the Movies* 8-11, 17-24, 34, 64-76, 79-81 (1931); Michael Conant, *Antitrust in the Motion Picture Industry* 16-21, 77-80 (1960). For briefer treatment of the history, focusing on misuse and antitrust issues, see 9 Phillip E. Areeda & Herbert Hovenkamp, *Antitrust Law* ¶1701 (2d ed. 2004).

**40.** *MPPC*, 243 U.S. at 516-518:

Our conclusion renders it unnecessary to make the application of this statute to the case at bar which the circuit court of appeals made of it, but it must be accepted by us as a most persuasive expression of the public policy of our country with respect to the question before us.

patent monopoly by restricting the use of it to materials necessary in its operation, but which are not part of the patented invention."<sup>41</sup>

The Court's reliance on the Patent Act and misuse principles rather than §3 of the Clayton Act directly is odd. The legislative history of the provision expressly targeted the activities of MPPC and the General Film Company:

Where the concern making these contracts is already great and powerful, such as the United Shoe Machinery Co, the American Tobacco Co., and the General Film Co., the exclusive or "tying" contract made with locals dealers becomes one of the greatest agencies and instrumentalities of monopoly ever devised by the brain of man. It completely shuts out competitors, not only from trade in which they are already engaged, but from the opportunities to build up trade in any community where these great and powerful combinations are operating under this system and practice.... The General Film Co... has practically destroyed all competition and acquired a virtual monopoly of all films manufactured and sold in the United States.<sup>42</sup>

Congress' concerns as manifested in §3 of the Clayton Act provided the Supreme Court with an important rationale for developing patent misuse doctrine, albeit as an alternative to direct enforcement of §3 itself or use of it as a defense. Indeed for the subsequent three decades ties involving patented tying products were condemned mainly under patent doctrine rather than the antitrust laws. In *Carbice* the Supreme Court once again denied a contributory infringement action to the patentee of an ice box whose license restriction required users to purchase its dry ice as well.<sup>43</sup> *Carbice*, the infringement defendant, had sold dry ice to owners of ice boxes manufactured by the plaintiff, "with knowledge that the dioxide is to be used by the purchaser in the transportation packages like those described in the patent."<sup>44</sup> The decision was an extension of *Motion Picture Patents*, which had involved a patented projector and unpatented films. *Carbice*, by contrast, involved a combination patent, and one of the elements of the combination was the otherwise unpatented dry ice. While the Court found

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41. *MPCC*, 243 U.S. at 517.

42. H.R.Rep. No. 63-627, 2d Sess. 12-13 (1914).

43. *Carbice Corp. v. American Patents Dev. Corp.*, 283 U.S. 27 (1931).

44. *Id.* at 30.

misuse, it also declared in a footnote that the tying arrangement violated §3 of the Clayton Act and stated that it was "analogous" to a Sherman Act §1 violation.<sup>45</sup>

The *Carbice* proposition -- that the owner of a combination patent did not have the right under the Patent Act to control the sale of unpatented consumables described in the combination patent claims -- was later extended in the Supreme Court's *Mercoide* case to durable components of a combination patent as well. And in *Leitch* the same rule was extended to a process patent.<sup>46</sup> The defendant owned a patent on a process licensed to road builders for applying an emulsion. By means of a license provision it attempted to tie the unpatented emulsion used in the process. All of these cases relied mainly on misuse doctrine, although the *Mercoide* decisions also indicated that the license tie would violate the antitrust laws.<sup>47</sup>

The principal exceptions to the Supreme Court's nearly exclusive pre-1940s reliance on misuse rather than antitrust doctrine to explore the legality of tying arrangements came in two cases brought by the government. In the 1922 *United Shoe Machinery* case the Supreme Court rejected the defendant's claim that §3 of the Clayton Act was unconstitutional because it took away rights that had previously been held to be encompassed by the Patent Act.<sup>48</sup> The Court relied heavily on its *MPPC* decision to hold that, while the Patent Act did create the power to exclude rivals from making the patented invention, it did not confer the power to tie unpatented articles; so the Clayton Act took nothing away. Then in the *IBM* case (1936) the Court held that Clayton §3 could be applied to the defendant's tie of tabulating machines and blank data cards, notwithstanding IBM's claim that its patent rights extended to both the tabulating machines and the cards. The Court interpreted the patent claims to cover only the cards when perforated and the perforation process. It then rejected the "dubious claim that the sale of the unpunched cards is a contributory infringement...."<sup>49</sup> The Court then went on

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45. *Carbice*, 283 U.S. at 232-233 & n.4.

46. *Mercoide Corp. v. Mid-Continent Inv. Co. (Mercoide I)*, 320 U.S. 661 (1943) (*Mercoide I*); *Mercoide Corp. v. Minneapolis-Honeywell Regulator Co.*, 320 U.S. 680, 684 (1944) (*Mercoide II*); *Leitch Mfg. Co. v. Barber Co.*, 302 U.S. 458, 461-463 (1938).

47. See *Mercoide I*, 320 U.S. at 667-668; *Mercoide II*, 320 at 684. The *Leitch* and *Carbice* decisions never mention the antitrust laws.

48. *United Shoe Machinery Corp. v. United States*, 258 U.S. 451 (1922).

49. See also *IBM Corp. v. United States*, 298 U.S. 131, 137-138 (1936).

to condemn the tie using misuse criteria, with no discussion of market power other than the assumption that the patents in question conferred a monopoly.<sup>50</sup> In sum, for all intents and purposes *IBM* was a "misuse" case in which the misuse claim was brought by the government rather than raised as a defense to an infringement action, and the vehicle for so doing was §3 of the Clayton Act.<sup>51</sup>

The Supreme Court's 1942 *Morton Salt* decision is sometimes viewed as first developing the modern "misuse" concept because for the first time the Court denied an infringement action against a direct (rather than contributory) infringer.<sup>52</sup> The previously discussed decisions simply stated that licenses containing tying clauses were unenforceable because they attempted to extend the patent grant beyond its Congressional authorization. The patentee in *Morton Salt* had invented a machine that injected salt tablets into canned foods, and licensed the machine to canners under agreements requiring them to purchase their salt from the patentee as well. The infringement defendant had built a machine that almost certainly infringed the plaintiff's patent, but the Supreme Court held that as long as the

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**50.** Other government-brought decisions addressed ties under §3 of the Clayton Act, without discussing patents. E.g., *FTC v. Sinclair Refining Co.*, 261 U.S. 463 (1923) (refusing to condemn tying in gasoline because the contracts did not also require exclusive dealing; no discussion of intellectual property rights).

**51.** *Id.* at 137-138. Indeed, the Court described the Clayton Act provision almost as if it were an amendment to the Patent Act, rather than an antitrust provision:

When Congress had before it the bill which became section 3 of the Clayton Act, 15 U.S.C.A. §14, it was familiar with the decision of this Court in *Henry v. A. B. Dick Co.*, 224 U.S. 1 contentions made in *United States v. United Shoe Mach. Co.*, 247 U.S. 32, 33, 38 S.Ct. 473, 62 L.Ed. 968, then pending before this Court; cases in which it was held that a tying clause could lawfully be extended to unpatented supplies for a leased patented machine. Cong.Rec., vol. 51, part 14, 63rd Cong., 2d Sess., 14,089 ff.; see Henderson, The Federal Trade Commission, 30. One purpose of section 3 undoubtedly was to prevent such use of the tying clause.... But the debates on section 3, on the floor of the Senate, disclose that it was well known to that body that one of the contentions in the pending cause, *United States v. United Shoe Mach. Co.*, 247 U.S. 32, 33, 38 S.Ct. 473, 62 L.Ed. 968, was that it was permissible, in any circumstances, for a lessor to tie several patented articles together. They show that the proponents of the bill were as much concerned that that practice should be prohibited as that the tying of nonpatented to patented articles should be ended.

*Id.* at 137.

**52.** *Morton Salt Co. v. G.S. Suppiger Co.*, 314 U.S. 488 (1942).



patentee was engaged in the impermissible tying it could not sustain the infringement action against a rival. While antitrust arguments were presented to the court as well, it concluded that it need not address the antitrust issue because "maintenance of the present suit to restrain petitioner's manufacture or sale of the alleged infringing machine is contrary to public policy."<sup>53</sup>

The court also relied on the equitable doctrine of "unclean hands" which denied an equitable remedy in cases where the plaintiff was also violating public policy or engaging in inequitable conduct. "[E]quity does not demand that its suitors shall have led blameless lives," but "the successful prosecution of an infringement suit . . . is a powerful aid to the maintenance of the attempted monopoly of the unpatented article."<sup>54</sup> Accordingly, all relief was denied against alleged infringement "at least until it has been made to appear that the improper practice has been abandoned and the consequences of the misuse of the patent have been dissipated."<sup>55</sup> Significantly, while the court stated the concern as being competition in the tied-up salt market, that tying agreement had no impact whatsoever on the infringement defendant in this case.<sup>56</sup>

One explanation for the dominance of misuse over antitrust analysis during this period is the happenstance that the private cases were infringement actions in which the claimant was an infringement defendant. Even so, non-enforcement of license restrictions that violated an antitrust

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**53.** *Id.* at 494. The Seventh Circuit had allowed the infringement claim after concluding that use of the patent had not substantially lessened competition in violation of the antitrust laws, mainly because there was no foreclosure in the sale market: "the extent of the influence of the agreement upon the salt business [were] almost nil." 117 F.2d at 971.

**54.** *Id.* at 492-493.

**55.** *Ibid.* See also *B.B. Chem. Co. v. Ellis*, 31 U.S. 495, 498 (1942) (patentee could enforce patent once again, once it ceased the offending practice). Although the doctrine initially barred only equity suits a few years later the Supreme Court extended it to actions for damages or royalties. *United States Gypsum Co. v. National Gypsum Co.*, 352 U.S. 457, 465 (1957).

**56.** See *id.* at 491: "[N]othing turns on the fact that petitioner also competes with respondent in the sale of the tablets." *Id.* at 491. "It is the adverse effect upon the public interest of a successful infringement suit in conjunction with the patentee's course of conduct which disqualifies him to maintain the suit, regardless of whether the particular [infringer] has suffered from the misuse of the patent." *Id.* at 494.

provision would seem to be a much more obvious solution, and one that would not have involved the courts in developing distinct sets of principles for misuse and antitrust.<sup>57</sup>

Only in the 1940s did the Supreme Court begin to develop distinctive antitrust doctrine in tying cases involving patented articles. In its two *Mercoïd* decisions, decided in 1943 and 1944, the Supreme Court first held that the owner of a combination patent could not maintain an infringement action against one who sold an unpatented element of the combination under circumstances where there were no non-infringing uses of the element.<sup>58</sup> The technology at issue was a patented device that combined a thermostat, an electric switch, and a corkscrew style stoker that fed coal into furnaces. The switch itself was unpatented but useful only in this particular patented combination. *Mercoïd* thus effectively held that it was unlawful for a firm with a combination patent to insist on selling all elements of the combination itself when the separate element in question was unpatented. The first *Mercoïd* decision was unclear about whether the Court was applying misuse or antitrust principles. However, a year later the Court sustained a Declaratory Judgment Action to the effect that the same conduct violated the antitrust laws.<sup>59</sup> In the process it held, apparently inconsistently with *Morton Salt*, that:

The legality of any attempt to bring unpatented goods within the protection of the patent is measured by the anti-trust laws not by the patent law. . . . [T]he effort here made to control competition in this unpatented device plainly violates the anti-trust laws . . . ."<sup>60</sup>

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**57.** See, e.g., *Standard Fashion*, note 29 above.

**58.** *Mercoïd Corp. v. Mid-Continent Inv. Co. (Mercoïd I)*, 320 U.S. 661 (1943).

**59.** *Mercoïd Corp. v. Minneapolis-Honeywell Regulator Co.*, 320 U.S. 680 (1944) (*Mercoïd II*). The suit was brought under the Declaratory Judgment Act, apparently because the patentee had merely threatened the Declaratory Judgment plaintiff with an infringement action for selling the switch; however, the plaintiff also requested treble damages, which were available only under the antitrust laws.

**60.** *Id.* at 684. This holding was severely criticized in the Report of the Attorney General's National Committee to Study the Antitrust Laws 254 (1955), which attacked the notion "that any violation of patent law necessarily violates the antitrust laws," and declared that a misuse defined by patent policy is often "effectively curbed" by simply denying the patentee equitable relief and is not always "drastic enough to meet antitrust prerequisites of effect on competition." Moreover, making every patent misuse an antitrust violation would "put the patent owner on a different footing than owners of other property subject to antitrust." In 1952 the holding was overruled by Congress. 35 U.S.C.

There was no discussion of market power or separate products -- two elements that are now essential parts of tying analysis.

Then, beginning with the 1947 decision in *International Salt* the Supreme Court began to develop the modern antitrust jurisprudence of tying, which declared such arrangements to be unlawful per se when there was tying product power and "not insubstantial" sales of the tied product in commerce. Further, sufficient power would be presumed when the tying product was patented.<sup>61</sup> That presumption has been the object of rigorous criticism and even ridicule. Nevertheless, in 2005 it was reluctantly accepted by the Federal Circuit, which saw no way to avoid the Supreme Court precedents upholding it.<sup>62</sup>

After *International Salt* the antitrust laws began to displace misuse doctrine as the principal vehicle for attacking tying arrangements,<sup>63</sup> although misuse continued to play an important role. As overly aggressive as tying law under the per se rule became, some courts nevertheless continued to find misuse in order to make ultimate liability for patent ties even broader.<sup>64</sup>

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§271(c)-(d). The amending statute provided that a person selling articles (other than a staple suitable for substantial noninfringing uses) for use in infringing a patented invention, with knowledge thereof, is liable as a contributory infringer. It also declared that a patentee shall not be denied relief to which he is otherwise entitled merely because he sells goods for use in practicing the patented invention, licenses others to do so, or enforces his rights against infringement or contributory infringement. See ¶1782d (2d).

**61.** *International Salt Co. v. United States*, 332 U.S. 392 (1947).

**62.** *Independent Ink, Inc. v. Illinois Tool Works, Inc.*, 396 F.3d 1342 (Fed.Cir. 2005), cert. granted, 125 S.Ct. 2937 (2005). Under the holding the presumption is rebuttable. Further, the court held that in assessing market power one should look at the usual criteria for assessing power, such as market definition, market share, and entry barriers. However, the burden of proof would be on the defendant rather than the plaintiff. See Phillip E. Areeda & Herbert Hovenkamp, Antitrust Law ¶1518 (2005 Supp.).

**63.** For example, *Northern Pacific Ry. v. United States*, 356 U.S. 1, 6 (1958), extended the same aggressiveness to a situation where the tying product was not patented; and *Times-Picayune Publishing Co. v. United States*, 345 U.S. 594, 614 (1952), articulated the requirement of separate products. See 10 Phillip E. Areeda, Herbert Hovenkamp, & Einer Elhauge, Antitrust Law ¶¶1742-1743 (2d ed. 2004).

**64.** See, e.g., *Zenith Radio Corp. v. Hazeltine Research*, 395 U.S. 100, 140-141 (1969), which suggested that misuse could be broader than Sherman or Clayton Act liability. As a result the challenged practices, which included compulsory package licensing of

Congress also intervened by passing the Patent Misuse Reform Act in 1988, which declared that patent ties should be misuse only when the patentee had power in the patented invention in question.<sup>65</sup> One clear purpose of the statute was to bring the substantive requirements for misuse and antitrust closer together.<sup>66</sup>

Over the last several decades the principal function of misuse in tying cases has been to extend tying doctrine into areas where tying law itself might not reach. The most well known example is the Supreme Court's conclusion in *Brulotte* that it is per se misuse for a patentee to require royalty payments that extend beyond the expiration date of the patent -- a conclusion it reached by likening the extension of royalty payments to the extension of patent power that results from the tie of unpatented goods.<sup>67</sup>

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groups of patents, and basing royalties on the production of unpatented articles, could be unlawful even in the absence of market power or competitive effects:

And if there was such patent misuse, it does not necessarily follow that the misuse embodies the ingredients of a violation of either §1 or §2 of the Sherman Act, or that Zenith was threatened by a violation so as to entitle it to an injunction under §16 of the Clayton Act.

- 65.** No patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having . . . (4) refused to license or use any rights to the patent; or (5) conditioned the license of any rights to the patent or the sale of the patented product on the acquisition of a license to rights in another patent or purchase of a separate product, unless, in view of the circumstances, the patent owner has market power in the relevant market for the patent or patented product on which the license or sale is conditioned.

35 U.S.C. §271(d)(4)-(5).

- 66.** See 10 Antitrust Law ¶1781d3 (2d). However, in *Independent Ink*, note 62, the Federal Circuit suggested that this statute operated so as to require that market power be established in the usual way in misuse cases, with the burden of proof on the infringement defendant; but that power would be presumed in antitrust cases.

- 67.** *Brulotte v. Thys Co.*, 379 U.S. 29 (1964). See Hovenkamp, Janis, & Lemley, note 5 at ch. 23.

Three IP practices closely related to ties have provoked some controversy as well. These are package licensing of patents; blanket licenses, mainly of copyrighted recorded music; and block-booking of movies or television shows. Somewhat irrationally, package licensing and blanket licensing are usually addressed under the rule of reason, while block-booking is unlawful per se. See *Id.*, Ch. 22.

Other examples are the Federal Circuit's conclusion that the tying of patented and unpatented goods might constitute "misuse" even when tying law's "separate products" requirement is not met.<sup>68</sup> Other courts have held that misuse could be found on tying-like practices, even when no anticompetitive effects were apparent, or when other technical requirements of the antitrust law of tying were not met.<sup>69</sup>

In its *USM* decision, however, the Seventh Circuit concluded that patent misuse should generally be limited to practices that violate the antitrust laws as well.<sup>70</sup> The claim at issue only vaguely resembled tying. The patentee's license required payment of 25 percent of royalties received from sub-licensees generally; however, for four sub-licensees that had previously been the patentee's own licensees it required a payment of 75 percent.<sup>71</sup> The higher royalty may have been punishment for licensees who no longer dealt with the patentee directly, but it was hard to see how the differential royalty schedule could be exclusionary. Judge Posner concluded that the practice could not be misuse without a showing of market power or competitive effects, because antitrust law would have assessed those requirements. As the court explained, patent misuse doctrine "arose before there was any significant body of federal antitrust law, and reached maturity long before that law . . . attained its present broad scope."<sup>72</sup> Now, however, when antitrust reaches "every practice that could impair competition substantially, it is not easy to define a separate role for a doctrine also

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**68.** *Senza-Gel Corp. v. Seiffhart*, 803 F.2d 661 (Fed. Cir. 1986). On the antitrust requirement of separate tying and tied products, see 10 Antitrust Law, Ch. 17D-1 (2d).

**69.** *Transitron Elec. Corp. v. Hughes Aircraft Co.*, 487 F.Supp. 885, 892-893 (D. Mass. 1980), aff'd, 649 F.2d 871 (1st Cir. 1981) ("patent misuse may be seen as having a less stringent standing requirement and a lesser burden of proof than an antitrust claim"); *Hewlett-Packard Co. v. Bausch & Lomb*, 882 F.2d 1556, 1563 (Fed. Cir. 1989) ("When a party seeks to collect monetary damages from a patentee because of alleged violations of the antitrust laws, it is appropriate to require a higher degree of misconduct for that damage award than when a party asserts only a defense against an infringement claim"). On copyright misuse, see *Lasercomb America v. Reynolds*, 911 F.2d 970, 973, 979 (4th Cir. 1990) ("a misuse need not be a violation of antitrust law in order to comprise an equitable defense to an infringement action").

**70.** *USM Corp. v. SPS Technologies*, 694 F.2d 505 (7th Cir. 1982), cert. denied, 462 U.S. 1107 (1983).

**71.** 694 F.2d at 510.

**72.** *Id.* at 511.

designed to prevent an anticompetitive practice --the abuse of a patent monopoly."<sup>73</sup> Indeed, "If misuse claims are not tested by conventional antitrust principles, by what principles shall they be tested? Our law is not rich in alternative concepts of monopolistic abuse; and it is rather late in the day to try to develop one without in the process subjecting the rights of patent holders to debilitating uncertainty."<sup>74</sup> Thus, there could be no patent misuse without proof of the power or effect that antitrust law generally requires when addressing such conduct.

Recently, however, the courts have found occasion to give misuse a broader meaning, particularly in cases involving copyright. For example, in *Alcatel* the infringement plaintiff and defendant both made a "switch" that employed the plaintiff's copyrighted software.<sup>75</sup> The defendant could test its switch for compatibility only by a single loading of the plaintiff's software, which it refused to grant. When the plaintiff claimed infringement, the court viewed the action as attempting to use the copyright laws to limit competition in the market for the switches.<sup>76</sup> In its *Assessment Technologies* decision the Seventh Circuit also indicated that the scope of copyright misuse could be broader than antitrust where the owner of a copyrighted database attempted to use its copyright to "sequester" public domain information (public property tax data) that was accessible only through the database.<sup>77</sup> Judge Posner appeared to accept a tort (abuse of process) theory rather than an antitrust theory of copyright misuse, at least in principle:

The argument for applying copyright misuse beyond the bounds of antitrust, besides the fact that confined to antitrust the doctrine would be redundant, is that for a copyright owner to use an infringement suit

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73. Ibid.

74. Id. at 512.

75. *Alcatel USA v. DGI Technologies*, 166 F.3d 772, 792-794 (5th Cir. 1999).

76. See also *Practice Management Information Corp. v. AMA*, 121 F.3d 516 (9th Cir.), cert. denied, 525 U.S. 810 (1997) (when defendant conditioned use of its copyrighted coding system on licensee's promise not to use a competing coding system it engaged in copyright misuse, whether or not the agreement constituted an antitrust violation); *Napster Copyright Litigation*, 191 F.Supp.2d 1087 (N.D.Cal. 2002) (copyright misuse does not require a showing of an antitrust violation).

77. *Assessment Technologies, LLC v. WIREdata, Inc.*, 350 F.3d 640 (7th Cir. 2003); 361 F.3d 434 (7th Cir. 2004).

to obtain property protection, here in data, that copyright law clearly does not confer, hoping to force a settlement or even achieve an outright victory over an opponent that may lack the resources or the legal sophistication to resist effectively, is an abuse of process.<sup>78</sup>

Despite its dubious history, IP misuse appears to be well established in legal doctrine, and it continues to have a life beyond antitrust liability. The recent copyright decisions appear to view it as a way of limiting overreaching that the Copyright Act does not expressly prohibit but that seem unwise as a matter of competition policy. One explanation of the divergence between copyright and patent misuse doctrine is that copyright has no equivalent of §271(d) of the Patent Act, which operates to make patent misuse doctrine conform more closely to antitrust principles, particularly in cases where the challenged practice resembles tying.<sup>79</sup>

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**78.** *Assessment Technologies*, 350 F.3d at 647. A subsequent decision then held that while the copyright holder's actions in seeking to use copyright law to deny access to public domain information may not have constituted a technical misuse, they came sufficiently close to warrant an award of attorney's fees to the prevailing infringement defendant. *Assessment Technologies, LLC v. WIREdata, Inc.*, 361 F.3d 434 (7th Cir. 2004).

See also *Chamberlain Group, Inc. v. Skylink Technologies, Inc.*, 381 F.3d 1178, 1201 (Fed. Cir. 2004), holding that the defendant's universal garage door transmitter that allowed consumers to access copyrighted software embedded in the manufacturer's garage door openers did not violate the Digital Millennium Copyright Act's (DMCA's) anticircumvention provision when the access in question was undoubtedly fair use:

Chamberlain's [the copyright holder's] construction of the DMCA would allow virtually any company to attempt to leverage its sales into aftermarket monopolies--a practice that both the antitrust laws, and the doctrine of copyright misuse normally prohibit."

Id. at 437, citing *Eastman Kodak Co. v. Image Tech. Servs.*, 504 U.S. 451, 455 (1992); and *Assessment Technologies*, supra, 350 F.3d at 647. As the court explained:

Chamberlain's proposed construction would allow any manufacturer of any product to add a single copyrighted sentence or software fragment to its product, wrap the copyrighted material in a trivial "encryption" scheme, and thereby gain the right to restrict consumers' rights to use its products in conjunction with competing products. *Chamberlain*, 381 F.3d at 1201.

**79.** See in particular 35 U.S.C. §271(d)(5), which provides that:

No patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having ... (5) conditioned the license of any rights to the patent or the sale of the patented product on the

## The Development of Horizontal IP Restraints Doctrine<sup>80</sup>

A restraint is horizontal if the participants are actual or potential competitors and the restraint is designed to limit competition among the participants. Since the early twentieth century the Supreme Court has evaluated many types of horizontal restraints involving IP rights, including price-fixing and patent pools, various types of market division, boycotts, and mergers. This subsection provides a very brief evaluation of the law.

Certainly the longest running and most controversial horizontal restraint doctrine involving patents is the one first articulated by the Supreme Court in 1902<sup>81</sup> and then developed more fully in the 1926 *General Electric (GE)* case.<sup>82</sup> In *GE* the Court approved an agreement between a patentee of incandescent light bulbs and its licensee, stipulating the price that the licensee must charge for bulbs manufactured under the license. Because the parties were actual competitors *GE* stands for the proposition that price-fixing between two rivals is lawful if the price-fix provision is contained in a license from the patentee permitting the licensee to produce the patented article. The Justice Department has been vehemently hostile to the *GE* rule and has sought many times to have it overruled, but has never been able to do better than obtain a 4-4 split affirming a lower court decision following the rule.<sup>83</sup> Recently Judge Posner opined that the Supreme Court would not follow the rule if the proper case came up today,<sup>84</sup> however, the rule remains

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acquisition of a license to rights in another patent or purchase of a separate product, unless, in view of the circumstances, the patent owner has market power in the relevant market for the patent or patented product on which the license or sale is conditioned.

**80.** See also Ch. 107. Horizontal agreements that involve standard setting are treated in Ch. 112. Finally, the troublesome issue of horizontal agreements that settle patent disputes is covered in Ch. 113. For other discussion, see Hovenkamp, Janis & Lemley, note 5 at Chs. 30-36.

**81.** *Bement v. National Harrow Co.*, 186 U.S. 70 (1902).

**82.** *United States v. General Electric*, 272 U.S. 476 (1926).

**83.** *United States v. Huck Mfg. Co.*, 227 F.Supp. 791 (E.D.Mich. 1964), aff'd by an equally divided Court, 382 U.S. 197 (1965). See also *United States v. Line Material Co.*, 333 U.S. 287, 302, 304, 316 (1948), in which Four Justices (Douglas, Black, Murphy and Rutledge) opined that *GE* should be overruled, and one (Jackson) did not participate.

**84.** *Asahi Glass Co., Ltd. v. Pentech Pharmaceuticals, Inc.*, 289 F.Supp.2d 986, 992



good law and has been applied as recently as 1993.<sup>85</sup>

Worse yet, it seems clear from the facts that the patents were of doubtful value to Westinghouse. The royalty rate was only 2%, and at the time of the agreement some 7% of the market was controlled by unlicensed manufacturers.<sup>86</sup> One significantly anticompetitive aspect of the *GE* rule is its propensity to permit competitors to cloak price-fixing in a license agreement of dubious value, perhaps because the patent is invalid, but perhaps simply because it would be quite easy for the licensee to develop alternative technology that did not infringe the patent. The story of far too many *GE*-style price-fixing agreements is that they were negotiated as settlements to patent infringement suits that were of course never resolved.

For this reason both the Supreme Court and the lower courts have limited *GE* to the circumstances of that case. For example, *GE* does not protect price-fixing in a finished product where the patents in question involve only a small portion of that product.<sup>87</sup> Nor does *GE* protect price-fixing in the unpatented products produced by a patented machine or process that has been licensed out.<sup>88</sup> The Supreme Court has also declined to extend the *GE* rule to more elaborate arrangements in which a large number of patentees licensed one another and fixed the prices in their industry,<sup>89</sup> or to situations

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(N.D.III. 2003).

**85.** *LucasArts Entm't Co. v. Humongous Entm't Co.*, 870 F. Supp. 285 (N.D. Cal. 1993).

**86.** See *Asahi Glass*, note 84 at 992; and William M. Landes & Richard A. Posner, *The Economic Structure of Intellectual Property Law* 382-385 (2003).

**87.** *Ethyl Gasoline Corp. v. United States*, 309 U.S. 436, 456 (1940) (agreement licensing Ethyl, a gasoline additive, did not warrant price fixing in the finished gasoline); *United States v. Univis Lens Co.* 316 U.S. 241 (1942) (licensing agreement involving raw lens blanks for bifocals did not warrant price fixing in finished lenses).

**88.** *Cummer-Graham Co. v. Straight Side Basket Corp.*, 142 F.2d 646, 647 (5th Cir.), cert. denied, 323 U.S. 726 (1944) (*GE* did not protect arrangement under which patentee licensed out patented attachment to basket-making machine, and stipulated the resale price of baskets produced by it); *Barber-Colman Co. v. Nat. Tool Co.*, 136 F.2d 339 (6th Cir. 1943); *Am. Equip. co. v. Tuthill Bldg. Material Co.*, 69 F.2d 406 (7th Cir. 1934).

**89.** *United States v. United States Gypsum Co.*, 333 U.S. 364, 400 (1948), concluding that *GE*:

gives no support for a patentee, acting in concert with all members of an industry, to issue substantially identical licenses to all members of the industry

where numerous owners of complementary patents licensed each other and included a price-fixing provision in the arrangement.<sup>90</sup> Lower courts have tended to read *GE* even more narrowly. For example, in *Newburgh Moire* held that *GE* should be confined to its facts, which were that a single patentee fixed patents with a single licensee. If three or more parties were involved, the *GE* rule would not be applied.<sup>91</sup> Most recently, in *Applera*, a district court conducted a lengthy analysis of the doctrine's jurisprudence and concluded that *GE* did not immunize industry-wide price fixing carried on via a licensing agreement.<sup>92</sup>

Finally, the "first sale" doctrine dictates that any protection given to price fixing by the Patent Act cover only the initial sale of the patented good. As a result, the patentee cannot fix the resale price of goods manufactured under a patent.<sup>93</sup> Significantly, the protection is lost even though the price-fixing provision in question is not resale price maintenance under the *Dr. Miles* rule either. For example, suppose GE licenses Westinghouse to make bulbs. Westinghouse sells the bulbs to distributors, and GE makes its license conditional on its obtaining an agreement with all of these distributors stipulating their resale price. In this case there is no RPM on GE's part because there is no resale -- the transaction between GE and Westinghouse covers a patent license, while the transaction between Westinghouse and the distributors covers the bulb. Further, there is no RPM as between Westinghouse and the distributors because GE, not Westinghouse, has stipulated the resale price. The agreement is nevertheless unlawful per se.

Market division agreements involving IP rights have always received

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under the terms of which the industry is completely regimented, the production of competitive unpatented products suppressed, a class of distributors squeezed out, and prices on unpatented products stabilized.

Accord *United States v. New Wrinkle, Inc.*, 342 U.S. 371 (1952).

**90.** *United States v. Line Material Co.*, 333 U.S. 287 (1948).

**91.** *Newburgh Moire Co. v. Superior Moire Co.*, 237 F.2d 283, 291-294 (3d Cir. 1956). Not all Circuits have agreed. See *Westinghouse Elec. Corp. v. Bulldog Elec. Prods. Co.*, 179 F.2d 139, 143 (4th Cir. 1950) (refusing to adopt two party restriction).

**92.** *Applera Corp. v. MJ Research, Inc.*, 2004 WL 2935820, \*7-8, 2004-2 Trade Cases (CCH) ¶74,654 (D.Conn. Dec. 16, 2004).

**93.** E.g., *Bauer & Cie v. O'Donnell*, 229 U.S. 1 (1913).

less hostile treatment from the courts than have price-fixing agreements. First of all, some market divisions are expressly permitted by the Patent Act. Section 261 authorizes a patentee to grant an exclusive license covering "the whole or any specified part of the United States." This provision has generally been viewed as permitting horizontal territorial division agreements of the type that the Supreme Court declared to be unlawful per se in its *Topco* decision, which did not involve patent licenses.<sup>94</sup> Importantly, while the language permits a horizontal market division agreement between a patentee and its individual licensees, it does not authorize competing licensees to negotiate exclusive territories with each other, and such agreements would presumably be illegal per se if naked, or subject to the rule of reason if reasonably ancillary to other joint productive activity. That is to say, the right refers to formally "vertical" arrangements in which the patentee/licensor is agreeing individually with licensees. Of course the agreement may be horizontal in effect if the patentee is producing in competition with its licensees; but that arrangement is somewhat akin to "dual distribution" in the vertical restraints context, and today most such arrangements are analyzed under the rule of reason in any event.<sup>95</sup>

Customer and product allocation agreements do not enjoy the express IP authorization that territorial agreements have. However, if the agreements are strictly between a patentee and its individual licensees they will be treated as "field of use" restrictions, and these are subject to the rule of reason and generally lawful. For example, in *General Talking Pictures* the patentee owned technology for making sound amplifiers.<sup>96</sup> It reserved to itself and its subsidiaries the market for commercial sound systems but

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**94.** 35 U.S.C. §261. *United States v. Topco Assocs.*, 405 U.S. 596 (1972). See, e.g., *E. Bement & Sons v. Nat. Harrow Co.*, 186 U.S. 70, 92-93 (1902) (upholding territorial restrictions in license agreement to make agricultural harrows); *Brownell v. Ketcham Wire & Mfg. Co.*, 211 F.2d 121, 128 (9th Cir. 1954) ("owner of a patent may license another and prescribe territorial limitations."); *Smith Int'l., Inc. v. Kennametal, Inc.*, 621 F. Supp. 79, 89-90 (N.D. Ohio 1985). The rule also applies to sublicensors and sublicensees: *Miller Insituform, Inc. v. Insituform of N. Am., Inc.*, 605 F. Supp. 1125, 1130 (M.D. Tenn. 1985) aff'd, 830 F.2d 606 (6th Cir. 1987), cert. denied, 484 U.S. 1064 (1988) (permitting licensee to sublicense and impose territorial restrictions on sublicensee).

**95.** On dual distribution, which occurs when a supplier sells in competition with its distributors or dealers, see 8 Phillip E. Areeda & Herbert Hovenkamp, *Antitrust law* ¶1605 (2004).

**96.** *Gen. Talking Pictures Corp. v. Western Elec. Co.*, 304 U.S. 175, aff'd on reh'g, 305 U.S. 124 (1938).

licensed to others the right to manufacture sound systems for home use. A naked agreement between competing firms dividing markets in this fashion would ordinarily be unlawful per se, but ever since *General Talking Pictures* the rule of reason has been applied to most market division provisions of this type when contained in IP licenses, even if the licensor and licensee are competitors.<sup>97</sup>

More complex licensing provisions, including patent pools, generally receive rule of reason treatment,<sup>98</sup> unless the court views them as disguises for naked price-fixing.<sup>99</sup> Indeed, pooling may be essential to development when different firms have patents whose claims overlap, or "block," one another, making it impossible for any single firm to practice its patent, at least for some particular purpose, without a license from others.<sup>100</sup>

Finally, standard setting arrangements are generally treated under the rule of reason.<sup>101</sup> In general, markets for complex products work more efficiently if product standards are developed and effectively communicated to consumers.<sup>102</sup> One competitive danger of standard setting is price-fixing, which can become easier when a product is standardized. A few standard setting agreements have been condemned under the per se rule when their obvious purpose was to facilitate price fixing.<sup>103</sup> Probably the more

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**97.** When the licensor and licensee are not competitors such arrangements are closely akin to vertical nonprice restraints, which have been analyzed under the rule of reason since the Supreme Court's decision in *Continental T.V. v. GTE Sylvania*, 433 U.S. 36 (1977).

**98.** See, e.g., *Standard Oil Co. (Ind.) v. United States*, 283 U.S. 163 (1931); and see Hovenkamp, Janis & Lemley, note 5 at Ch. 34.

**99.** E.g., *Hartford-Empire Co. v. United States*, 323 U.S. 386 (1945); *United States v. Line Material*, 333 U.S. 287 (1948).

**100.** See Hovenkamp, Janis & Lemley, note 5 at §34.4c1.

**101.** See Hovenkamp, Janis & Lemley, note 5 at Ch. 35.

**102.** See 13 Herbert Hovenkamp, *Antitrust Law* ¶12230 (2d ed. 2005).

**103.** E.g., *Nat'l Macaroni Mfrs. Ass'n v. FTC*, 345 F.2d 421 (7th Cir. 1965) (defendant's fixed standard for macaroni as 50% semolina hard wheat and 50% inferior farina wheat in order to suppress price of semolina); *C-O-Two Fire Equip. Co. v. United States*, 197 F.2d 489 (9th Cir.), cert. denied, 344 U.S. 892 (1952) (defendant's standardized fire extinguishers in order to facilitate bid-rigging). See 13 Herbert Hovenkamp, *Antitrust Law* ¶12136 (2d ed. 2005).

significant danger is anticompetitive exclusion, which occurs when standard setting is used by dominant firms to exclude the products of price-cutters, or products that threaten to shift market share away from dominant firms.<sup>104</sup> Finally, a few recent cases have involved claims that a member of a standard setting organization manipulated the process in such a manner as to facilitate the adoption of a standard over which it held patent claims, thus enabling it to obtain royalties from those who manufactured under the standard or perhaps excluding them altogether.<sup>105</sup>

## Patents and Exclusion<sup>106</sup>

### *Walker Process and Exclusionary Infringement Actions*

While the Supreme Court's 1965 decision in *Walker Process*<sup>107</sup> is sometimes identified as the historical basis for applying §2 of the Sherman Act to unilateral exclusionary practices involving IP rights, the case law actually stretches earlier. For example, in *Besser* (1952) the Supreme Court affirmed the district court's conclusion that the defendant violated §2 by filing a patent infringement suit without any good knowledge whether the infringement defendant's technology actually infringed the patent.<sup>108</sup> A few

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**104.** E.g., *Allied Tube & Conduit Corp. v. Indian Head, Inc.*, 486 U.S. 492 (1988) (dominant maker of steel conduit packed meeting of standard setting organization in order to obtain disapproval of rival's highly innovative plastic conduit); *Hydrolevel Corp. v. American Society of Mechanical Engineers, Inc.*, 456 U.S. 556 (1982) (similar); *Radiant Burners, Inc. v. Peoples Gas Light & Coke Co.*, 364 U.S. 656 (1961) (accepting allegations that gas utility companies and rival burner makers adopted standard the excluded plaintiff's burner). See 13 Herbert Hovenkamp, *Antitrust Law* ¶¶2230-2235 (2d ed. 2005).

**105.** *Rambus Inc. v. Infineon Technologies Ag*, 318 F.3d 1081 (Fed.Cir. 2003), cert. denied, 540 U.S. 874 (2003). See also *Union Oil Co.*, 5 CCH Trade Reg. Rep. ¶15618 (FTC, July 6, 2004); *Rambus, Inc.*, 5 CCH Trade Reg. Rep. ¶15556 (F.T.C. Feb. 24, 2004); *in re Dell Computer*, No. 93-10097 (F.T.C. 1995).

**106.** See Chs. 108, 110, & 115. See also 3 *Antitrust Law* ¶¶704-711 (3d).

**107.** *Walker Process Equipment v. Food Machinery & Chemical Corp.*, 382 U.S. 172 (1965).

**108.** *United States v. Besser Mfg. Co.*, 96 F.Supp. 304, 312 (E.D.Mich. 1951), aff'd 343 U.S. 444 (1952) (lawsuits on machine alleged to infringe but that patentee had never examined; the defendants were actually Besser and its partially owned subsidiary Stearns, of which Besser owned some 40% and controlled 3 of 5 board members; court dealt with claim under both §2 and §1).

other decisions condemned practices such as patent accumulation that was thought to be excessive. For example, in *United Shoe Machinery* Judge Wyzanski found it unlawful for USM to accumulate many patents by obtaining exclusive rights from the patentee when it could just as easily have obtained non-exclusive rights.<sup>109</sup> The 1955 Report of the Attorney General also expressed a concern about patent accumulation and §2, generally concluding that while a firm should be permitted to acquire as many patents as it pleased through its own internal research, liability should attach to extreme cases of acquiring exclusive rights from others.<sup>110</sup>

Prior to *Walker Process* the law had been that fraud on the patent office could be used as a defense in an infringement action based on such a patent.<sup>111</sup> However, already in *Mowry v. Whitney* (1872) the Supreme Court had adopted the English rule that only the government could bring an affirmative action to have a patent set aside on grounds of fraud.<sup>112</sup> Because the infringement defendant's antitrust counterclaim in *Walker Process* required an affirmative attack on the patent the lower courts had dismissed the complaint. The Court did not overrule *Mowry* but rather distinguished between actions brought under the Patent Act to set aside a patent for fraud, which only the government could bring, and actions brought under a collateral statute such as the antitrust laws.<sup>113</sup> As a practical matter, a factual holding in an antitrust counterclaim that a patent had been fraudulently

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**109.** *United States v. United Shoe Machinery Corp.*, 110 F.Supp. 295, 310-312, 333 (D.Mass. 1953), aff'd per curiam, 347 U.S. 521 (1954).

**110.** Report of the Attorney General's National Committee to Study the Antitrust Laws 226 (1955).

**111.** See, e.g., *Precision Instrument Mfg. Co. v. Automotive Maintenance Mach. Co.*, 324 U.S. 806, 816-817 (1945) (barring enforcement of patent obtained by fraud; patentee became aware of fraud during the course of litigation); *Keystone Driller v. General Excavator Co.*, 290 U.S. 240 (1933) (patentee suppressed evidence of prior use that rendered patent unenforceable; improperly maintained infringement action).

**112.** *Mowry v. Whitney*, 14 Wall. 434 (1872). As an example of such an action, see *United States v. American Bell Tel. Co.*, 128 U.S. 315 (1888) (government may sue to set aside patent obtained by fraud; here, on claims that Bell knowingly applied for patent improvements on telephone when such improvements had been developed by others and were already in commercial use).

**113.** Indeed, the Court noted, it was already well established that a patent's validity could be challenged under the Declaratory Judgment Act. See *Walker Process*, 382 U.S. at 176.

obtained renders the patent unenforceable as against any party to that proceeding.

In general, the courts have read *Walker Process* quite restrictively,<sup>114</sup> and with good reason. Almost any attempt at enforcing a patent through threatened or actual infringement lawsuits could yield an antitrust counterclaim if strict standards are not applied, and this could serve to make patents less attractive and far more costly to defend. The owner of a patent must have some assurance about its rights to protect its investment.

There is also a significant question about the need for a separate §2 remedy for fraudulently brought infringement actions. The Patent Act itself, coupled with a set of broad equity rulings, create significant remedies addressing such situations. Patents obtained by fraud or inequitable conduct before the PTO are unenforceable.<sup>115</sup> The Supreme Court has even held that fraud in the application for one patent may render related patents unenforceable.<sup>116</sup> As noted previously, the government may sue to cancel a patent obtained by fraud,<sup>117</sup> and judgments of invalidity for fraud or misrepresentation are generally given nonmutual collateral estoppel effect in subsequent actions brought by other licensees.<sup>118</sup> A licensee under a patent

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**114.** For example, the Federal Circuit as well as some other Circuits require clear and convincing evidence of patent fraud. *FMC Corp. v. The Manitowoc Co.*, 835 F.2d 1411 (Fed. Cir. 1987); *Loctite Corp. v. Ultraseal Ltd.*, 781 F.2d 861 (Fed. Cir. 1985); *Handgards v. Ethicon (Handgards I)*, 601 F.2d 986 (9th Cir. 1979), cert. denied, 444 U.S. 1025 (1980).

**115.** *Precision Instrument Mfg. Co. v. Automotive Maintenance Mach. Co.*, 324 U.S. 806 (1945) (barring enforcement of patent obtained by fraud); *J.P. Stevens & Co. v. Lex Tex*, 747 F.2d 1553 (Fed. Cir. 1984), cert. denied, 474 U.S. 822 (1985) (same; patent obtained by inequitable conduct in patent application process). See also *Hewlett-Packard Co. v. Bausch & Lomb*, 882 F.2d 1556 (Fed. Cir. 1989), cert. denied, 493 U.S. 1076 (1990) (fraud or inequitable conduct in application for re-issue patent rendered original patent unenforceable); *Kingsdown Medical Consultants v. Hollister*, 863 F.2d 867 (Fed. Cir. 1988), cert. denied, 490 U.S. 1067 (1989) (if inequitable conduct occurs with respect to one significant claim in the patent application, the entire patent becomes unenforceable).

**116.** *Keystone Driller v. General Excavator Co.*, 290 U.S. 240 (1933).

**117.** *United States v. American Bell Tel. Co.*, 128 U.S. 315 (1888).

**118.** See *Blonder-Tongue Laboratories v. Univ. of Illinois Foundation*, 402 U.S. 313 (1970). On non-mutual, or "offensive," collateral estoppel in antitrust cases, see ¶318 (2d).

determined to be unenforceable for fraud or inequitable conduct may escape payment of future royalties<sup>119</sup> and, in cases of fraud, may recover previously paid royalties.<sup>120</sup> Further, the licensee or infringement defendant who proves fraud or inequitable conduct may recover attorney's fees under the Patent Act itself.<sup>121</sup> Finally, as noted previously, if the patentee is engaged in misuse the court can refuse to enforce the patent or compel payment of royalties as long as the misuse persists.<sup>122</sup>

So the need for yet another remedy under the antitrust laws is hardly a forgone conclusion, particularly since significant antitrust damages in such cases are typically not large. The most obvious damages are the infringement defendant/antitrust counterclaimant's litigation costs. To be sure, there may be collateral damages for such things as loss of sales prior to the court's determination of invalidity. In addition is the belief that a single infringement suit is an unlikely vehicle for creating or perpetuating durable monopoly, although there may be exceptions.

Nonetheless, the "*Walker Process*" antitrust counterclaim is well established, and the courts consider several such claims annually.<sup>123</sup> Further, the doctrine has expanded beyond *Walker Process* to reach situations where the infringement suit itself, rather than the means by which the patent was procured, is improper. An infringement action can be objectively baseless because the infringement plaintiff is stating a claim that is contrary to the law<sup>124</sup> or where the action is improper for some other

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**119.** *Lear v. Adkins*, 395 U.S. 653 (1969).

**120.** *USM Corp. v. SPS Technologies*, 514 F.supp. 213 (N.D. Ill. 1981), rev'd on other grounds, 694 F.2d 505 (7th Cir. 1982), cert. denied, 462 U.S. 1107 (1983); *Transitron Electronic Corp. v. Hughes Aircraft Co.*, 649 F.2d 871, 875-876 (1st Cir. 1981) (requiring knowing misrepresentation made to Patent Office at time of application).

**121.** See 35 U.S.C. §285. See *Fox Industries v. Structural Preservation Systems*, 922 F.2d 801, 804 (Fed. Cir. 1990) (recovery of attorney's fees by infringement defendant); *Monolith Portland Midwest Co. v. Kaiser Aluminum & Chemical Corp.*, 407 F.2d 288 (9th Cir. 1969) (same).

**122.** *Morton Salt Co. v. G.S. Suppiger Co.*, 314 U.S. 488 (1942).

**123.** See 3 Phillip E. Areeda & Herbert Hovenkamp, *Antitrust Law* ¶¶705-706 (2d ed. 2002).

**124.** E.g., *Professional Real Estate Investors v. Columbia Pictures Indus.*, 508 U.S. 49 (1993), which recognized the possibility that a copyright infringement suit that was



reason, such as the patent's expiration, or the patentee's knowledge that the infringement defendant's technology does not infringe any claim in the relevant patent.<sup>125</sup>

Today much of the law governing such claims is made by the United States Court of Appeals for the Federal Circuit.<sup>126</sup> In *Nobelpharma* the Federal Circuit held that it would make its own antitrust law for such counterclaims insofar as the issues were intimately related with patent law.<sup>127</sup>

However, for issues such as relevant market, market power, or damages, which are general to all types of antitrust claims, the Federal Circuit would follow the law of the regional circuit where the case originated.<sup>128</sup>

Today antitrust counterclaims to infringement actions are asserted for both patent and copyright infringement suits, although the former are far more common. Many types of defects in the infringement claim can serve as the conduct basis for the counterclaim. This includes situations where the IP holder knows that the claimed IP right is invalid or unenforceable,<sup>129</sup> where

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improperly brought because contrary to law could be an antitrust violation, although not finding a violation in a case where the circuits were divided on the legal question at issue.

**125.** See generally 3 Areeda & Hovenkamp, Antitrust Law ¶705g,h (2d).

**126.** In *Holmes Group v. Vornado Air Circulation Sys.*, 535 U.S. 826 (2002), the Supreme Court held that the jurisdiction of the Federal Circuit does not extend to counterclaims that arise under the Patent Act, 35 U.S.C.. However, in the typical *Walker Process* lawsuit the primary claim is an infringement suit under the Patent Act, and the counterclaim is asserted under the antitrust laws, so the Federal Circuit normally has jurisdiction over both claims. See, e.g., *Atari v. JS&A Group*, 747 F.2d 1422 (Fed. Cir. 1984, en banc). See also Hovenkamp, Janis, & Lemley, note 5, Ch. 5; Charles Alan Wright, Arthur R. Miller, & Edward H. Cooper, Federal Practice and Procedure §4104 (Juris.2d 1988 & Sup.).

**127.** *Nobelpharma v. Implant Innovations*, 141 F.3d 1059 (Fed. Cir.), cert. denied, 525 U.S. 876 (1998).

**128.** Id. at 1068. Thus, for example, in *Independent Ink, Inc. v. Illinois Tool Works, Inc.*, 396 F.3d 1342 (Fed.Cir. 2005), cert. granted, 125 S.Ct. 2937 (2005), the court held that it would apply Federal Circuit law to the issue of tying legality when the tying product is patented; however, it would apply regional Circuit law to the question of market power measurement.

**129.** E.g., *Open LCR.Com v. Rates Tech.*, 112 F.Supp.2d 1223 (D.Colo. 2000) (plaintiff's allegations that patentee failed to disclose prior art to PTO and then threatened and brought infringement claims without realistic expectation of success on merits, even after antitrust plaintiff documented the existence of the prior art, were sufficient to support

the infringement plaintiff is relying on an irrational interpretation of the statute,<sup>130</sup> where the underlying IP right is valid but the claim does not cover the infringement defendant's technology,<sup>131</sup> or where the IP right upon which the claim is asserted has expired.<sup>132</sup>

The improper filing of the infringement action establishes the conduct element of the antitrust counterclaim. However, in order to prove a §2 violation the antitrust counterclaimant will also have to prove other essential elements of an antitrust claim, including monopoly power (or the dangerous probability of acquiring it in an attempt case), anticompetitive effects, standing under §4 of the Clayton Act, and damages.<sup>133</sup>

### *Unilateral Refusals to License*

As a basic premise the owner of a patent or other IP interest is free to practice the invention itself, or to license it or refuse to license it. This general rule applies even to unused or "unworked" patents. Early in the twentieth century a few courts held that patent doctrine (not antitrust law) limited the patent infringement plaintiff to damages if the infringement involved an unused patent.<sup>134</sup> That remedy was effectively a form of compulsory licensing with judicially determined damages as the royalty. However, in its 1908 *Paper Bag* case the Supreme Court held that even the owner of an unused patent could enjoin infringement.<sup>135</sup> Since then the right,

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antitrust action).

**130.** Cf. *Professional Real Estate*, note 124.

**131.** E.g., *United States v. Besser Mfg. Co.*, 96 F.Supp. 304, 312 (E.D.Mich. 1951), aff'd 343 U.S. 444 (1952). Cf. *Ecix Corp. v. Exabyte Corp.*, 95 F.Supp.2d 1155 (D.Colo. 2000) (for purposes of filing antitrust claim, infringement defendant was entitled to discovery of factual basis for infringement plaintiff's allegations that former's technology infringed the latter's patent).

**132.** E.g., *International Technologies Consultants v. Pilkington PLC*, 137 F.3d 1382 (9th Cir. 1998).

**133.** See 1 Phillip E. Areeda & Herbert Hovenkamp, *Antitrust Law* ¶208 (2d ed. 2000).

**134.** *Electric Smelting & Aluminum Co. v. Carborundum Co.*, 189 F. 710 (C.C.W.D. Pa. 1900); *Dorsey Harvester Revolving Rake Co. v. Marsh*, 7 F. Cas. 939, 945 (C.C.E.D. Pa. 1873). The rationale of these early decisions was that because the patentee was not working the patent it was not in competition with the infringer, and therefore the ordinary damages remedy at law was adequate.

insofar as patent law is concerned, has been codified:

No patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having... (4) refused to license or use any rights to the patent.<sup>136</sup>

The language "misuse or illegal extension of the patent right" would seem broad enough to cover both misuse and antitrust claims.<sup>137</sup> However, in its 1997 *Kodak* decision, discussed below, the Ninth Circuit held to the contrary, declaring that a refusal to license patented parts was a violation of §2 of the Sherman Act.<sup>138</sup>

When considering antitrust policy and any duty to license IP rights one must distinguish four situations: (1) concerted refusals to license; (2) "conditional" refusals to license; (3) compulsory licensing imposed as a remedy for separately proven antitrust violations; and (4) the unilateral refusal to license as an antitrust violation itself.

Concerted refusals to license are addressed under the antitrust's per se rule if they are "naked" boycotts in which the boycotting firms are competitors,<sup>139</sup> and under the rule of reason if they are ancillary to joint productive activity.<sup>140</sup>

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**135.** *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U.S. 405, 429 (1908).

**136.** 35 U.S.C. §271d.

**137.** For the same reason, it would seem clear that a patent could not be an essential facility. Recognizing it as such would simply be compulsory licensing by another name. See Hovenkamp, Janis & Lemley, note 5 at §13.3c.

**138.** *Eastman Kodak Co. v. Image Tech. Servs.*, 125 F.3d 1195 (9th Cir. 1997), cert. denied, 523 U.S. 1094 (1998).

**139.** However, under the Supreme Court's decision in *NYNEX Corp. v. Discon*, 525 U.S. 128 (1998), so-called purely vertical boycotts must be addressed under the rule of reason. For example, an agreement between a patentee and a licensee not to license a second licensee would be addressed under the rule of reason as an output contract, at least assuming that the patentee and licensee are not competing in production of the patented good. See 13 Antitrust Law at ¶2204 (2d).

**140.** See 13 Antitrust Law ¶2214 (2d) (closed membership joint ventures); ¶¶2221-2223 (open membership ventures).

A conditional refusal to license can be an antitrust violation if the condition violates the antitrust laws. For example, §3 of the Clayton Act provides:

It shall be unlawful ... to lease or make a sale ... of goods, wares, merchandise, machinery, supplies, or other commodities, whether patented or unpatented ... on the condition, agreement, or understanding that the lessee or purchaser thereof shall not use or deal in the goods ... of a competitor.<sup>141</sup>

That is to say, an agreement to license a patent only if the licensee agrees to tying or exclusive dealing is unlawful if the underlying tying or exclusive dealing is unlawful. Likewise, a price-fixing agreement among patentees is effectively an agreement not to license unless the licensee pays the fixed price. Or a willingness to license technology only on the condition that the licensee not develop competing technology might be either an exclusionary practice under the Sherman Act or misuse.<sup>142</sup> One could go on with this list, but the basic point should be clear: conditional refusals to deal are addressed under ordinary antitrust principles and in most cases an unlawful refusal is not saved by the fact that the subject of the refusal is an IP right.

Compulsory licensing is also a fairly common remedy for an independently proven antitrust violation -- that is, where the violation is something other than the refusal to license itself.<sup>143</sup>

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**141.** 15 U.S.C. §14.

**142.** E.g., *Lasercomb America v. Reynolds*, 911 F.2d 970, 973, 979 (4th Cir. 1990) (copyright misuse for infringement plaintiff to license database only on condition that licensee not develop a competing database).

**143.** See, e.g., *United States v. Glaxo Group, Ltd.*, 410 U.S. 52 (1973); *Besser Mfg. Co. v. United States*, 343 U.S. 444, 449 (1952) ("We can see no abuse of discretion here. Compulsory licensing and sale of patented devices are recognized remedies. They would seem particularly appropriate where, as here, a penchant for abuses of patent rights is demonstrated."); *United States v. General Electric Co.*, 115 F.Supp. 835 (D.N.J. 1953). And see the following consent decrees: *United States v. AT&T*, 552 F.Supp. 131, 136 (D.D.C.1982), *aff'd mem. sub nom., Maryland v. U.S.*, 460 U.S. 1001 (1983) (AT&T breakup, requiring AT&T to grant the seven "baby Bells" nonexclusive licenses to its patents); *United States American Cyanamid Co.*, 556 F.Supp. 361 (S.D.N.Y.), *rev'd on other grounds*, 719 F.2d 558 (2d Cir. 1983), *cert. denied*, 465 U.S. 1101 (1984) (consent decree containing detailed licensing requirements). Cf. *International Tel. & Tel. Corp. v. General Telephone & Electronics*, 351 F.Supp. 1153, 1175 (D. Ha. 1972), *aff'd in part, rev'd in part on other grds.*, 518 F.2d 913 (9th Cir. 1975) (discussing earlier AT&T

One controversial issue concerning refusals to license is whether the unilateral refusal to license an IP right can itself be an unlawful exclusionary practice or constitute "misuse" of the right. With few exceptions the federal courts have consistently held that a patentee has no duty to license its patent to others.<sup>144</sup> Further, as noted previously, that duty has been enacted into the patent statute, at least insofar as misuse claims are concerned.

The issue would be regarded as settled but for the Ninth Circuit's *Kodak* decision upon remand from the Supreme Court.<sup>145</sup> First, that court held that §271(d) simply declared pre-existing law; and while that law had never compelled licensing, the court concluded that this fact entitled it to consider the issue anew.<sup>146</sup> It then devised a "single monopoly" theory for patents under which a patentee was entitled to one, but only one, monopoly.

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consent decree involving Western Electric subdivision, which also required compulsory licensing of patents).

**144.** See *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U.S. 405, 429 (1908); *Dawson Chemical Co. v. Rohm & Haas Co.*, 448 U.S. 176, 215 (1980) ("the right to exclude others from profiting by the patented invention" is "essence" of patent); *Data General Corp. v. Grumman Systems Support Corp.*, 36 F.3d 1147 (1st Cir. 1994); *Genentech v. Eli Lilly and Co.*, 998 F.2d 931, 949 (Fed. Cir. 1993), cert. denied, 510 U.S. 1140 (1994); *Miller Insituform v. Insituform of North America*, 830 F.2d 606, 609 (6th Cir. 1987), cert. denied, 484 U.S. 1064 (1988) (refusing to license cannot be §2 violation); *SCM Corp. v. Xerox Corp.*, 645 F.2d 1195, 1204, 1206 (2d Cir. 1981), cert. denied, 455 U.S. 1016 (1982) ("[n]o court has ever held that the antitrust laws require a patent holder to forfeit the exclusionary power inherent in his patent the instant his patent monopoly affords him monopoly power over a relevant product market"); *United States v. Westinghouse Electric Corp.*, 648 F.2d 642, 647 (9th Cir. 1980) (patentee has "untrammelled right" to refuse to license; antitrust violation may not be found "where a patent holder does precisely that which the patent laws authorize"); *W.L. Gore & Assocs. v. Carlisle Corp.*, 529 F.2d 614, 623 (3d Cir. 1976) ("right to refuse to license is the essence of the patent holder's right").

**145.** *Eastman Kodak Co. v. Image Tech. Servs.*, 125 F.3d 1195 (9th Cir. 1997), cert. denied, 523 U.S. 1094 (1998), on remand from *Eastman Kodak Co. v. Image Tech. Servs.*, 504 U.S. 451 (1992). The possibility that a unilateral refusal to license could be unlawful was suggested earlier in dicta in *Data General Corp. v. Grumman Systems Support Corp.*, 36 F.3d 1147, 1187 & n. 64 (1st Cir. 1994) (unilateral refusal to license a copyright can be unlawful exclusionary practice; however, "an author's desire to exclude others from use of its copyrighted work is a presumptively valid business justification for any immediate harm to consumers"). See also Hovenkamp, Janis & Lemley, note 5 at §13.3d2.

**146.** See *Kodak*, 125 F.3d at 1215.

The court reasoned that patents may have given Kodak a monopoly on some of its parts, but by refusing to sell the parts to independent repair technicians Kodak was effectively creating a second monopoly in the relevant market for service.<sup>147</sup> As both the district court and the Federal Circuit later observed in the *ISO* case, this single monopoly theory rests on a fundamental misconception about patents.<sup>148</sup> Patents describe inventions, not markets. A patent typically creates no monopoly at all; but a few may create a monopoly in one market or in many depending on where and how the patented technology is used. The Kodak patents on aftermarket parts were of value in both the market for the parts themselves and the complementary market for servicing photocopiers. This fact, as far as the Ninth Circuit was concerned, meant that Kodak had a duty to sell its parts. Otherwise, it would be reaping the advantages of monopoly in both the parts market and the service market. The Supreme Court denied certiorari on both the Ninth Circuit and the Federal Circuit decisions, so this conflict in the Circuits persists.

Finally, §2 of the Sherman Act has also produced claims that innovation itself is an exclusionary practice. This is an area where the antitrust laws must tread particularly lightly, because the defendant's conduct is fully consistent with both the language and the general policy purposes of the antitrust laws. Further, significant innovations frequently injure rivals committed to older technologies, but it would be economically counterproductive and contrary to the whole concept of IP rights to punish people whose innovations injured a rival.

The relatively small number of cases posing direct challenges to innovation have involved claims that (1) the inventor should have predisclosed technology so that rivals could anticipate it and be prepared to accommodate it on the market; and (2) that the innovation was unnecessarily harmful in that it conferred little or no benefit on consumers but made a rival's complementary product incompatible with the dominant firm's product.

In *Berkey Photo* the Second Circuit, while speaking expansively of antitrust duties generally, held that a dominant manufacturer of camera film had no duty to predisclose its new film and camera design so that competing manufacturers could anticipate and make suitable modifications in their own

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**147.** *Kodak*, 125 F.3d at 1215-1216, 1225.

**148.** See *Independent Service Organizations (ISO) Antitrust Litigation*, 989 F.Supp. 1131, 1138 (D. Kan. 1989). And see *ISO Antitrust Litigation*, 203 F.3d 1322, 1325 (Fed. Cir. 2000), cert. denied, 531 U.S. 1143 (2001).

products.<sup>149</sup> In general, the duty that the plaintiff was asking the court to create would significantly impair the value of intellectual property rights. Further, there does not seem to be any effective way of managing it. By the time the defendant releases its new technology the requirement has already been violated. Prior to market release the innovator would have to predict the impact of its innovation, identify those persons who would be harmed by it and determine their entitlement to predisclosure. The almost certain result of such a rule would be paralyzing uncertainty for dominant firms involved in significant innovation.<sup>150</sup> Other predisclosure issues, concerning things such as false predisclosures, or vaporware, are less clear cut. However, in *Microsoft* the D.C. Circuit approved condemnation of Microsoft for giving software developers false advance information leading them to think they were writing for a version of the JAVA programming language that would support multiple platforms, when in fact it supported only the Windows platform. The result was to maintain Windows' incompatibility with the platforms of rivals, and thus its market dominating position.<sup>151</sup>

Other plaintiffs have suggested that patented or copyrighted innovations themselves are unlawful if they are unnecessarily exclusionary. Once again, the court that considers such claims is in precarious territory. The more successful an innovation is, the more harm it will do to the

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**149.** *Berkey Photo v. Eastman Kodak*, 603 F.2d 263, 281 (2d Cir. 1979), cert. denied, 444 U.S. 1093 (1980).

**150.** See Hovenkamp, Janis & Lemley, note 5 at §12.4a3.

**151.** *United States v. Microsoft Corp.*, 253 F.3d 34, 76 (D.C. Cir.), cert. denied, 534 U.S. 952 (2001). An earlier round of litigation had also provoked a discussion of vaporware, but no liability. See Judge Sporkin's opinion in *United States v. Microsoft Corp.*, 159 F.R.D. 318, 335 (D.D.C. 1995), rev'd on other grds, 56 F.3d 1448 (D.C.Cir. 1995) (suggesting that aggressive preannouncement of new products could be exclusionary because consumers might wait rather than shift to a rival's product:

This Court cannot ignore the obvious. Here is the dominant firm in the software industry admitting it "preannounces" products to freeze the current software market and thereby defeat the marketing plans of competitors that have products ready for market. Microsoft admits that the preannouncement is solely for the purpose of having an adverse impact on a competitor's product. Its counsel states it has advised its client that the practice is perfectly legal and it may continue the practice. This practice of an alleged monopolist would seem to contribute to the acquisition, maintenance, or exercise of market share.

And see Herbert Hovenkamp, *The Antitrust Enterprise: Principle and Execution*, Ch. 12 (2006).

products of the competitors that it displaces, and any significant threat of liability for innovating itself could create socially harmful disincentives to invention. The courts have found liability only rarely, and then only where the innovation was found to be of slight value to consumers, but highly exclusionary to rivals whose complimentary products were rendered incompatible. For example, the Federal Circuit affirmed a verdict of liability in *C.R. Bard* when the defendant made minor changes in its skin graft gun that rendered the disposable needles of rivals incompatible and forced users to purchase the defendant's patented needles.<sup>152</sup> Likewise, *Microsoft* condemned numerous effort by which the defendant tried to make rival internet browser Netscape less compatible with its copyrighted Windows operating system.<sup>153</sup>

## Conclusion

The history of IP/antitrust litigation is filled with exaggerated notions of the power conferred by IP rights and imagined threats to competition. The result is that antitrust litigation involving IP practices has seen problems where none existed. To be sure, finding the right balance between maintaining competition and creating incentives to innovate is no easy task. However, the judge in an IP/antitrust case almost never needs to do the balancing, most of which is done in the language of the IP provisions. The role of antitrust tribunals is the much more limited one of ensuring that any alleged threat to competition is real. At the same time, however, antitrust judges should not be reluctant to condemn IP practices once a real threat to competition is found, unless the practice has a clear justification in the IP statutes themselves or the explicit policies that the Supreme Court has derived from those statutes.

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**152.** *C.R. Bard v. M3 Systems*, 157 F.3d 1340 (Fed.Cir. 1998), cert. denied, 526 U.S. 1130 (1999).

**153.** *United States v. Microsoft Corp.*, 253 F.3d 34, 66 (D.C. Cir.), cert. denied, 534 U.S. 952 (2001); and see 3A Antitrust Law ¶1776 (2d ed. 2002).